



P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400

February 19, 2008

AGENDA ITEM 4b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Adoption of Delegation Resolution for SIO-Asset Allocation
- II. PROGRAM:** Asset Allocation/Inflation Linked Asset Class
- III. RECOMMENDATION:** Approve the Delegation Resolution for the SIO-Asset Allocation/Risk Management
- IV. ANALYSIS:**

Attached for the Investment Committee's review are:

- Proposed Delegation Resolution for the SIO-Asset Allocation/Risk Management (SIO-AA) (Attachment 1)
- Board-approved Guidelines for Delegating Investment Authority (Attachment 2)
- Opinion letter from Wilshire Associates (Attachment 3).

The delegation for the SIO-AA grants authority for managing the following decisions:

- a) Managing the strategic allocation of the total fund within approved ranges under the asset allocation policy;
- b) Managing the allocations to the component programs within the Inflation-Linked Asset Class (ILAC) under the ILAC policy; and
- c) Managing two (Commodities and Inflation Linked Bonds) of the four component programs of the ILAC under the ILAC policy. Once the various contingencies for the other two component programs (Forestland and Infrastructure) are in place, the delegation will be revised to incorporate those components.

All of the elements of the proposed Delegation are new and reflect the new responsibilities assigned to the SIO-AA. Specific aspects of the delegation are as follows:

a) Asset Allocation (AA)

The SIO-AA is delegated authority to manage the total fund asset allocation within IC approved ranges subject to CIO approval.

b) Allocations to the ILAC Components

The delegations provide authority for SIO-AA to manage the allocations to the ILAC components within the ranges specified in the ILAC policy. As noted above, delegation for two of the components (Commodities and Inflation Linked Bonds) is being proposed at this time. Once the contingencies for the remaining components (Forestland and Infrastructure) are in place, staff will update the Committee and present a revised delegation for approval.

c) Component programs within ILAC

1) Commodities

The delegated authority will enable the SIO-AA to manage the commodities program subject to the constraints specified in the commodities program policy within ILAC. It is expected that the program will be managed mainly through derivative instruments.

2) Inflation-Linked Bonds (ILB)

The internal ILB portfolio will be managed by the Global Fixed Income (GFI) unit under the delegated authority of the SIO-GFI in a client-manager relationship. The AA Unit is the client and GFI is the manager. The SIO-AA and SIO-GFI have agreed upon a process to manage this portfolio. If the need arises the SIO-AA has the authority to conduct the process for selection of external managers.

Background

At the October 2006 Investment Committee meeting, the Committee adopted the Guidelines for Delegating Investment Authority (Attachment 2). Since then delegations have been approved for all asset classes under the guidelines. The new delegations for Asset Allocation have been developed in consultation with Wilshire Associates to meet the following criteria from the Guidelines for Delegating Investment Authority.

1. Authority – The Asset Allocation delegations are made in a manner that is consistent with the chain of command for decision making and are made to the SIO-AA, who has meaningful expertise in asset allocation and investment management in various asset classes. These delegations allow the SIO-AA to effectively manage the Total Fund asset allocation and the ILAC.
2. Consistency – The management of the Total Fund asset allocation is unique to the Asset Allocation Unit but it is carried out with input from all asset classes. In the case of the ILAC and its component programs, new delegations have been specified for Commodities and ILB at this stage.
3. Investment Limits – Investment limits for Commodities and ILB are governed by the respective policies. Delegation limits for Infrastructure and Forestland will be specified when those programs are included.
4. Performance and Value at Risk – PAR for the various ILAC programs will be provided when all components are included.
5. Controls – Controls for the Commodities and ILB portfolios are governed by guidelines contained in the policy.
6. Cross Asset Class Issues – As mentioned above the asset allocation decisions are made in consultation with all asset classes.
7. Other Factors to Consider – Staff believes that the delegations provide the level of flexibility to implement the Asset Allocation and ILAC programs with the appropriate limits and controls.

V. STRATEGIC PLAN:

This project supports the following 2005 Strategic Plan Goals:

- Goal II to foster an environment that values quality, respect, diversity, integrity, communication and accountability.
- Goal VIII to manage risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX to achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

Memorializing the delegation will provide transparency and accountability. There are no costs associated with this item.

Farouki Majeed
Senior Investment Officer

Anne Stausboll
Chief Operating Investment Officer

Russell Read
Chief Investment Officer